ARMSTRONG ADVISORS
SUMMIT FINANCIAL, LLC

Summit Snapshot: Week of May 23rd, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-1.8%	-2.9%	-4.1%	-8.5%	-14.1%	-19.5%	-9.1%	-18.5%	-26.8%
U.S. Mid-Cap	-1.8%	-2.0%	-2.6%	-9.1%	-12.2%	-18.5%	-10.8%	-17.2%	-28.8%
U.S. Small-Cap	-0.7%	-1.0%	-1.4%	-11.1%	-14.2%	-17.6%	-13.2%	-20.7%	-28.0%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-3.0%	-13.7%	-17.7%
NASDAQ Composite	-3.8%	-20.0%	-27.2%
International Developed	1.5%	-9.0%	-14.4%
Emerging Markets	3.1%	-9.1%	-15.4%
U.S. Aggregate Bond	0.6%	-3.4%	-9.2%
U.S. Municipals	0.0%	-4.2%	-10.2%
Corporate High Yield	-0.7%	-6.5%	-11.0%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- Domestic stocks continued their descent as fears grew that inflation was causing consumers to further restrict their discretionary spending. At its trough, the S&P 500 Index was roughly 21% lower for the year, technically putting it in a bear market amidst mounting concerns that a recession is on the horizon. Wednesday's 4% decline in the S&P 500 was the largest single-day pullback since June 2020.
- Several major retailers reported lower-than-expected earnings which impacted investor sentiment. Notable companies impacted include Walmart, Lowe's, Home Depot, and Target. The latter missed analysts' estimates by nearly one-third prompting its stock price to plummet by 25% adding to Wednesday's market sell-off. Costco's stock price fell as rumors circulated the retail giant may soon raise prices of some items.
- Within the S&P 500 Index, energy and healthcare stocks were higher as Pfizer's COVID-19 booster shot was cleared by the Food and Drug Administration for use in children between 5-11 years of age. Consumer staples and consumer discretionary stocks were lower by around 8% as each sector was dragged down by the disappointing results of several retail companies.
- Value stocks led growth and small-caps beat large-caps although all segments of the market were lower.

International Equity Markets

- Developed non-U.S. and emerging market equities were mostly higher last week as represented by their MSCI indices in U.S. Dollar terms.
- European shares were slightly lower amid fears of slowing growth and expedited interest rate increases.
- Japanese stocks rose following the announcement that some Chinese monetary easing has begun and the fact that Japan's government stated the country's strict border control measures would be eased.
- Chinese stocks were higher as the central bank cut interest rates to support the local struggling property sector and bolster sentiment despite disappointing economic data and continuation of lockdowns.

Credit Markets (perspectives from our partners at Piton Investment Management)

- The Treasury yield curve flattened substantially during the week, as 2-year notes were mostly unchanged at 2.60% whereas the 10-year Treasury benchmark dropped about 15 basis points to 2.79%.
- Next week the markets will have to digest supply, as the U.S. Treasury will auction $47 billion in new 2-year notes, $48 billion in 5-year notes, and $42 billion in 7-year notes.
- Corporate spreads widened modestly over the week. Investment grade and high yield funds both reported strong outflows of $4.27 billion and $2.61 billion respectively.
- Companies who delayed their issuance finally came to market but face weakened levels of demand. This is echoed by Lipper which reported nearly $7 billion was withdrawn from corporate funds last week and marks the 8th straight week of outflows.
- After a continued weaker tone to start the week, municipal bonds conceded to the Treasury rally in the second half. Performance pivoted around the 10-year as shorter-dated tenors were 1-4 basis points stronger while longer-dated tenors were 1-4 basis points weaker.
- The 10-year AAA municipal level currently yields approximately 104% of the 10-year Treasury, very attractive by historical standards.
- Outflows remain persistent as municipal funds saw another $2.7 billion exit for the 14th consecutive week. Funds have lost $65.8 billion for the year, surpassing the annual record of $63.5 billion in 2013.

U.S. Economic Data/News

- Adding fuel to Wednesday's market sell-off was Fed Chair Jerome Powell's comments that reducing inflation was an "unconditional need" and that policymakers won't hesitate to raise rates as much as necessary even if "some pain was involved". The comments implied that raising the Federal Funds interest rate remains the main catalyst to realign the economy for growth but invoked more fears from investors.
- Economic data released last week was mixed. Retail sales excluding the volatile auto segment rose in April by 0.6% versus 0.4% that was expected, and March's gain was revised upwards to 2.1%. Industrial and manufacturing production figures also surprised to the upside.
- Home price data was more subdued. Existing-home sales slipped 2.4% in April from the prior month as reported by the National Association of Realtors. April's sales were 5.9% lower compared to one year ago as rapidly rising mortgage rates and record home prices decreased the ability for many consumers to afford making such a large purchase.
- The employment market remains tight as the number of people that filed continuing claims fell to 1.3 million through May 7th, a 52-year low. However, weekly jobless claims slightly rose last week to 218,000.

International Economic Data/News

- The inflation level in April out of the U.K. reached 9.0% on surging electricity and gas prices and is the highest level since 1982. Additionally, the 3.7% unemployment rate is its lowest level since 1974 as the number of job vacancies exceeded the number of unemployed people for the first time ever. The U.K.'s retail sales unexpectedly grew by 1.4% month over month in April although consumer confidence fell to its lowest level in 50 years as reported by a research company GfK.
- Japan's economic growth slowed in the first quarter of 2022 as its GDP contracted by an annualized 1% quarter-on-quarter. Factors include the decreased levels of trade amid soaring prices and lower consumer spending due to the coronavirus restrictions that were in place.
- Japanese inflation of 2.1% in April was slightly higher than its 2.0% target but is not a concern for policymakers as exports rose 12.5% year over year led by a U.S.-bound shipment of cars.

- On Friday the People's Bank of China cut its benchmark rate for loans of five years or more to 4.45% from 4.6%, the biggest reduction since 2019. Ironically it came after the central bank also stated it would not change the rate for one-year loans at 3.7%. Economic data for April lagged estimates so this broad central bank rate cut indicates the country is focused on increasing demand for homes despite falling prices.

Odds and Ends

- In early May, around 21% of all powdered baby formula nationwide was out of stock according to research conducted by IRI (Information Resources, Inc). There were a couple main reasons for the shortage including continued supply-chain bottlenecks as well as a voluntary recall by Abbott Laboratories after the FDA was investigating a few consumer complaints that resulted in two deaths of infants. Abbott Chief Executive Robert Ford issued a public apology over the weekend explaining why his company exacerbated the supply shortage which caused panic for many parents and caregivers. He stood behind his decision to recall some of his product since customer safety is paramount and has vowed to ramp up production in June once all safety concerns have been resolved. Last week President Biden invoked the Defense Production Act to increase the production of more baby formula and sped up methods to deliver more supplies to retailers through a new program called Operation Fly Formula.
- Net inflows into defensive sector exchange-traded funds, including consumer staples, healthcare, utilities, real estate, precious metals, commodities, and Treasury bonds, have totaled $50 billion this year through April according to Morningstar. That sum is on pace to surpass these same sectors' total of $75 billion in 2020. Investors remain focused on the search for "safe" investments, exposed to reduced amounts of volatility given the markets' unpredictability. Within the S&P 500, energy leads all sectors followed by utilities, healthcare, and consumer staples as the next best relative performers this year. Utilities are nearly flat while healthcare and consumer staples are down more than 7%.
- Private-equity firm KKR & Co. made a majority investment in Alchemer LLC, a software company that helps firms collect and analyze customer sentiment data. Alchemer which is about 16 years old provides services to around 13,000 customers including Verizon Communications and FedEx. KKR said its investment will support marketing, product improvements, and strategic alliances including helping KKR find and retain talented staff and board members. This deal is the first for a new segment of KKR which targets middle-market companies with an enterprise value of under $1 billion.

Resource of the week:

- Christopher Zook is the Chairman and CIO of CAZ Investments, a twenty-year-old, non-traditional multi-family office that has more than $3 billion invested in a series of thematic strategies, including $500 million from the CAZ team and its shareholders. This episode of *Capital Allocators* features a conversation that covers Chris's self-determined path to creating CAZ, a thematic model that creates raving fans, and some of CAZ's investment themes, including GP stakes, midstream energy, disruptive technology, and changing consumer behavior. Interestingly, host Ted Seides also touches on CAZ's investment philosophy, sourcing, research, and implementation of themes. Have a listen to hear more from a unique firm within the private equity world.
- **Podcast link**: https://capitalallocators.com/podcast/thematic-investing-and-raving-fans-at-caz-investments/

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

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This commentary was written by Craig Amico, CFA®, CIPM®, Associate Director, Noreen Brown, CFA®, Chief Wealth Strategist and Steven Melnick, CFA®, Associate Director at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer or solicitation to buy any securities mentioned. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The periodic returns are represented by the following indices: large-cap value by Russell 1000 Value TR Index, large-cap blend by Russell 1000 TR Index, large-cap growth by Russell 1000 Growth TR Index, mid-cap value by Russell Mid Cap Value TR Index, mid-cap blend by Russell Mid Cap TR Index, mid-cap growth by Russell Mid Cap Growth TR Index, small-cap value by Russell 2000 Value TR Index, small-cap blend by Russell 2000 TR Index, and small-cap growth by Russell 2000 Growth TR Index, international developed by the MSCI EAFE NR USD Index, Emerging Markets by the MSCI EM NR USD Index, U.S. Aggregate Bond by the Bloomberg US Agg Bond TR USD Index, U.S. Municipals by the Bloomberg Municipal TR USD Index, and Corporate High Yield by the Bloomberg US Corporate High Yield TR USD Index. The S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors. The Nasdaq Composite Index is a large market capitalization-weighted index of more than 2,500 U.S.-domiciled stocks. The index's composition is heavily weighted to the information technology sector, with consumer services, health care, and financials the next most prominent industries. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. The MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Europe Index captures large- and mid-cap representation across developed markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe. The MSCI China Index captures large- and mid-cap representation across China A-shares, H shares, Red chips, P chips, and foreign listings. The index covers about 85% of the China equity universe. The Nikkei 225 Index is a stock market index for the Tokyo Stock Exchange which is price-weighted operating in Japanese Yen. The index measures the performance of 225 large, publicly owned companies in Japan from different industry sectors. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS, and CMBS (agency and non-agency. The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The Bloomberg U.S. Corporate High-Yield Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the EM country definition, are excluded. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. CPI is often used as a barometer to measure inflation. The Caixin China General Services PMI (Purchasing Managers' Index) is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The index tracks variables such as sales, employment, inventories, and prices. A reading above 50 indicates that the services sector is generally expanding; below 50 indicates that it is generally declining. The 2s30s spread is the difference between the yield on the 30-year Treasury bond and the yield on the 2-year Treasury note.

Data in this newsletter is obtained from sources that we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. The attached materials, URLs, or referenced external websites are created and maintained by a third party, which is not affiliated with Summit Financial LLC. or its affiliates. The information and opinions found within have not been verified by Summit, nor do we make any representations as to its accuracy and completeness. Summit Financial, LLC, and affiliates are not endorsing these third-party services, or their privacy and security policies, which may differ from ours. We recommend that you review these third-party's policies and terms. Investment advisory and financial planning services offered through Summit Financial, LLC, a SEC Registered Investment Adviser, doing business as Armstrong Advisors, 4 Campus Drive, Parsippany, NJ 07054; Tel: 973-285-3600, Direct: 973-285-3405, Fax: 973-285-3666; rarmstrong@sfr1.com.